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Agenda Item 4a

September 13, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Extension of the Existing Blue Shield of California Health Maintenance Organization Contract
- II. **PROGRAM:** Benefit Programs Policy and Planning
- III. **RECOMMENDATION:** Staff recommends that the Health Benefits Committee: Extend the existing Blue Shield of California (Blue Shield) Health Maintenance Organization (HMO) contract to December 31, 2013, provided Blue Shield agrees to appropriate contract revisions satisfactory to CalPERS staff.

IV. BACKGROUND:

CalPERS current two-year Blue Shield contract expires December 31, 2012, and includes an option to extend for one additional year. If extended, the contract will run through December 31, 2013.

V. ANALYSIS:

Benefit Programs Policy and Planning staff and management are fully engaged in major, mission-critical activities that will have a significant and long-term impact on the way CalPERS does business both internally and externally—and therefore, on potential contract design. These activities will set the strategic direction of the Health Benefits Program for the next three to five years. Extending the current contract would allow CalPERS to fully integrate its strategic direction into the next contract renewal or solicitation process.

The mission-critical activities that will have a major impact on health plan contracts include conducting a comprehensive year-long Health Benefit Purchasing Review (HBPR) and implementing federal Health Care Reform (HCR). The HBPR is a necessary step in developing long-term, Board-approved health benefit design and purchasing strategies that include necessary elements as outlined in HCR and best practices. Additionally, HCR brings extensive regulatory changes to health plans, purchasers, and providers. These changes may impact member cost share, provider networks, and eligibility requirements. These factors are still unfolding and will be more stable by 2012.

In addition to CalPERS activities, Blue Shield is implementing several benefit design innovations for 2012:

- Expansion of the value-based purchasing program to include assigning copays to members who select an outpatient hospital instead of an ambulatory surgery center for upper and lower endoscopy, cataract surgery, and spinal injections;
- Expansion of the high-performance network; and,
- Pharmacy benefit modifications for brand name prescriptions.

CalPERS fully supports competition among plan providers and believes that periodic market testing is valuable. CalPERS staff expect to solicit new, innovative plan designs in 2013, and therefore believe that a 2012 Blue Shield contract renewal or solicitation would disrupt staff activity without yielding commensurate cost reductions.

Extending the existing Blue Shield contract will enable CalPERS to:

- Fully integrate our purchasing strategies in future contract solicitations;
- Monitor changes, assess outcomes, and incorporate findings related to Blue Shield benefit design innovations into the next multi-year contract; and,
- Coordinate our HMO and Preferred Provider Organization contract solicitations, applying the most current innovations.

Based on these factors, extending the current contract with Blue Shield is in the best interests of CalPERS members and beneficiaries. This extension is consistent with the provisions of the Public Employees' Medical and Hospital Care Act Section 22850.

VI. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

Extending the Blue Shield contract for an additional year ensures quality service at a reasonable cost will continue to be provided to approximately 408,000 total covered lives.

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